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Op-Ed: We're Laying the Groundwork for Recovery

The necessary policy tools are in place.

By Ben S. Bernanke

As Americans well know, the challenges we now face in the financial markets and in the economy are both extraordinarily complex and historic in scope. I firmly believe, however, that with the actions policy makers are announcing today, we will be able to meet those challenges.

Our strategy will continue to evolve and be refined, and we will adapt to new developments and the inevitable setbacks. But we will not stand down until we have achieved our goals of repairing and reforming our financial system, and thereby restoring prosperity to our economy.

Over the past year, the Federal Reserve has actively used all its powers and authority to try to help our economy through this difficult time. Central banks around the world have also consulted closely and cooperated in unprecedented ways to reduce strains in financial markets and to bolster our economies. We will continue to do so. However, clearly the time had come for a more comprehensive and broad-based solution.

History teaches us that government engagement in times of severe financial crisis often arrives very late, usually at a point at which most financial institutions are insolvent or nearly so. In these conditions, the consequences and costs of inertia and inaction can be staggering. Fortunately, that is not the situation we face today.

The Congress and the administration acted at a time when the great majority of financial institutions, though stressed by highly volatile and difficult market conditions, remain capable of fulfilling their critical function of providing new credit for our economy. Their prompt passage of the financial rescue legislation made possible the critical measures that will be announced this morning. These steps will allow us to restore more normal market functioning, and encourage private capital to further support the reinvigoration of financial markets.

I also find it heartening that we are seeing not just a national response but a global response to the crisis, commensurate with its global nature. Indeed, this weekend, the finance ministers and central bankers of the G-7 industrialized countries announced a comprehensive plan to unfreeze credit and money markets, increase capital in banks and other financial intermediaries, and protect deposits. Each of these governments is now moving quickly to put their own specific measures in place. The announcements we are making today are consistent with the G-7's statement of principles.

As in all past crises, at the root of the problem is a loss of confidence by investors and the public in the strength of key financial institutions and markets. This has had cascading and unwelcome effects on credit availability for households and businesses, and on the value of savings. Under these circumstances, steps to restore confidence in our institutions and markets will go far toward resolving the current market stress. Our economy will not be able to function at its best unless and until financial market stability returns. The bold actions taken by the Congress, the Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation and other agencies, together with the normal recuperative powers of the financial markets, will lay the groundwork for financial and economic recovery.

The most immediate responsibility of policy makers and elected officials is to restore confidence in our credit markets. Even as we do this, we must begin to consider long-term reforms that will mitigate similar crises in the future. A comprehensive review of our regulatory structures is an essential task in the coming year. The events of the past year or two have highlighted regulatory gaps and deficiencies that we must address to improve the structure of our markets and the resiliency of our economy. As we recover from the current crisis, it will be important to address these issues as soon as possible, to develop a regulatory structure that will better respond to future economic challenges.

Policy makers here and around the globe have taken a series of extraordinary steps. Americans can be confident that every resource is being brought to bear: historical understanding, technical expertise, economic analysis and political leadership.

I am not suggesting the way forward will be easy. But the tools are in place to respond effectively and with force. These tools will bolster the capital of our financial institutions, restore confidence in their debt, and offer increased access to funding for businesses. Their application, together with the underlying power and resilience of the American economy, will help to restore confidence to our financial system and place our economy back on a path to vigorous growth.